

# FRB-Richmond Credit Markets Symposium Volcker Rule: Implementation plans and challenges

May 2014

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# Common implementation challenges for different groups of firms affected by the Volcker Rule

## Large US dealer BHCs

- All spent considerable effort preparing based on the Agencies' proposed rule (but stopped short of actual IT changes)
- Now executing many streams of work to operationalize compliance program and metrics reporting
- Typical headaches: tagging which counterparties are "customers"; pushing Volcker-prescribed risk limits down to desks which have not used them previously; CLOs

## US Regional BHCs

- Many ignored the nitty gritty elements until the Final Rule
- Now, most regionals are assessing required compliance capabilities, educating C-suite and Board, and re-considering sales and trading growth plans if near a threshold
- Typical headaches: TruPS CDOs; building a VaR model for the first time; overall cost of enhanced compliance regime for a small pool of revenue

## FBOs

- Very mixed levels of readiness (and just more heterogeneous in business mix than US domestics)
- Larger-US-footprint FBOs tend to have locally-managed Volcker compliance efforts as part of a broader IHC readiness program
- Smaller FBOs often developing compliance at Group in home country
- Typical headaches: relocating or spinning off prop trading businesses; coordinating/adapting Group limits to be compliant

## Supervisory Agencies make up the important fourth set of institutions that will face their own set of implementation and roll-out challenges

- Smartly and thankfully, Final Rule eschews bright lines in favor of systematic processes that incorporate business judgment
  - Final Rule makes firms responsible in the first instance for developing an effective compliance program that incorporates responsible business judgment
  - It also provides supervisors with the responsibility and authority to collect evidence, consider firm- and business-level differences, and (my prediction/hope) develop a “case law” of acceptable compliance practices over time
- This is close to the best version of the basic Volcker Rule idea that could be formulated in rulemaking
- However, framing the rule in this way does depend upon having well-trained staff with the right resources and infrastructure who can focus on the Volcker Rule, at both the banks and the supervisory Agencies
- Banks are very stretched in delivering a plausible first-pass effort at ensuring compliance with Volcker – but I suspect the Agencies (who have relatively small budgets that do not scale with new responsibilities) are going to be even more resource-challenged
- So, the question is: to get the right outcomes for society as a whole, how much effort should the banks and Agencies collectively expend on Volcker Rule compliance, given the (almost certainly more important) competing demands on those limited resources?

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